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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

April 15, 2014

Ms. Sheila J. Poole
Acting Commissioner
Office of Children and Family Services
52 Washington Street
Rensselaer, NY 12144-2834

Re: Controls Over Cash Advance Accounts
Report 2013-S-52

Dear Acting Commissioner Poole:

According to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we audited controls over cash advance accounts at the Office of Children and Family Services (OCFS) for the period April 1, 2011 through December 31, 2013. The objectives of our audit were to determine whether OCFS needs all these accounts, and whether the money is properly accounted for and used for appropriate business purposes.

Background

Section 115 of the State Finance Law authorizes the establishment of cash advance accounts, which State agencies may use for petty cash, travel, and other funding needs (e.g., confidential, patient, inmate work release, and resident allowances). Advances are issued from agency appropriations and the cash is transferred from the State Treasury to a local bank account for use by the agency. Cash advance accounts are reimbursed periodically by vouchers audited and approved by the Office of the State Comptroller (OSC) for payment out of the State Treasury. Section 115 describes general criteria for establishing these accounts, such as: what they can be used for; that any authorized person who handles these accounts shall be bonded; that all accounts shall be audited by the Comptroller before reimbursement is made to replenish the accounts; and that if the Comptroller at any time determines the cash advance accounts are being used for other than authorized purposes, the Comptroller will direct the responsible party to return the cash advanced to establish the account.

According to OSC's Bureau of State Accounting Operations, OCFS was authorized to have 32 advance accounts with a total value of \$101,050 as of March 31, 2012. Subsequently, OCFS closed three facilities, which had three cash advance accounts authorized for a total of \$2,500, and returned the funds to OSC in October 2013.

Results of Audit

Our audit determined there was a business need for all of OCFS's accounts, and we were able to account for the funds advanced for each one. However, we identified one advance account that was being used for an unauthorized purpose and another for which the amount of the cash advance is no longer justified by the level of activity. In addition, as discussed in the following section, due to the lack of internal controls over one account, we were unable to ensure that all revenues and expenses flowing through it were properly recorded and accounted for.

Improper Use of Advance Account

OCFS uses a \$2,500 cash advance account at its Industry Residential Center to operate a food service operation, the Dugout Café (Café), although the account was never authorized or approved for this purpose. The Café is part of a training program for residents to learn how to operate a small business. Sales are made only to facility staff and receipts are handed over daily to the facility's business office, which in turn issues a check, usually weekly, from the account payable to the State Treasury. Reported receipts from Café operations amounted to approximately \$10,000 for the period April 1 through December 31, 2013. Although we were able to reconcile the funds in the account to recorded revenues and payments, the internal controls established over the account are not sufficient to ensure that all revenues and expenses are properly accounted for and reported. We found the same person signs checks, maintains the check register, and reconciles the bank account. This lack of separation of duties increases the risks of unreported revenues and improper expenses.

OCFS officials advised us they manage Café funds this way because they consider opening and maintaining a separate bank account to be impractical. They expressed concern that OCFS would incur bank fees if it established another small account that would only have one deposit and issue one check per week. Nevertheless, Section 4.03 of the New York State Accounting System User Procedures Manual requires that advance account funds not be commingled with other agency or facility funds, such as the Café receipts. Further, continued operation of the Café through this advance account with limited internal control hinders monitoring and reduces accountability for transactions.

Home Office Advance Account

OCFS also maintains a \$25,000 Home Office advance account originally established to provide travel advances and other miscellaneous payments to staff. Because of changes in the way OCFS does business, this account's authorized balance now appears to be excessive. The majority of checks recently written on this account were for travel advances issued to OCFS facility employees to attend mandated training sessions. Over time, as credit card usage has increased,

the number of travel advances decreased by more than 75 percent from 282 for the 2011-12 fiscal year to 65 in 2012-13. Similarly, reimbursements for expenditures made from this account declined from 227 totaling about \$57,000 for the 2011-12 fiscal year to 37 totaling only about \$9,000 in 2012-13. Having excessive funds in the account increases the risk of misappropriation.

Recommendations

1. Work with the Comptroller's Office to establish a dedicated account for the Dugout Café operation and separate the duties related to maintaining this account.
2. Review the Home Office advance account usage and reduce the authorized amount to more closely match usage. Return excess funds to State Treasury.

Audit Scope, Objectives, and Methodology

We audited OCFS's controls over cash advance accounts for the period April 1, 2011 through December 31, 2013 to determine whether OCFS needs all these accounts, and whether the money is properly accounted for and used for appropriate business expenses.

To accomplish our objectives, we performed a count of cash on hand; reviewed bank account statements, copies of cancelled checks, and agency-prepared bank reconciliations; and interviewed OCFS personnel and administrators to obtain an understanding of internal controls relevant to cash advance accounts. In addition, we performed our own bank account reconciliations for the most recent months available. We also reviewed the repayment of travel advances that had been issued to employees and determined what efforts had been made to collect the advances.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Reporting Requirements

A draft copy of this report was provided to OCFS officials, who agreed with our recommendations and reported steps they will take to implement them. A copy of their response is included at the end of this report.

Within 90 days of the release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Office of Children and Family Services shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Major contributors to this report were Walter Irving, Joel Biederman, Kathy Garceau, and Dick Gerard.

We wish to thank OCFS management and staff for the courtesies and cooperation they extended to our auditors during this review.

Sincerely,

John F. Buyce, CPA, CFE
Audit Director

cc: James Conway, OCFS Internal Audit



New York State
Office of
Children &
Family
Services

<http://ocfs.ny.gov>

Andrew M. Cuomo
Governor

Sheila J. Poole
Acting Commissioner

Capital View Office Park

52 Washington Street
Rensselaer, NY
12144-2834

March 27, 2014

Mr. John F. Buyce
Audit Director
Office of the State Comptroller
110 State Street
Albany, NY 12236

Dear Mr. Buyce:

The following is the Office of Children and Family Services' (OCFS) response to draft audit report 2013-S-52 on Controls Over Cash Advance Accounts received February 28, 2014. OCFS appreciates the opportunity to respond.

The draft report contains two recommendations for OCFS to consider which are:

Recommendation 1:

"Work with the Comptroller's Office to establish a dedicated account for the Dugout Café operation and separate the duties related to maintaining this account."

OCFS Response:

OCFS agrees with this recommendation and will contact the Comptroller's Office and request the establishment of a dedicated account for the Dugout Café at Industry Residential Center. In addition, OCFS will provide oversight so that adequate separation of duties established over the operation of the Dugout Café is maintained.

Recommendation 2:

"Review the Home Office advance account usage and reduce the authorized amount to more closely match usage. Return excess funds to State Treasury."

OCFS Response:

OCFS agrees with the recommendation and will review the Home Office advance account usage and reduce the advance account to an amount that more closely matches the actual usage of the account.

If you have any questions or comments regarding this response please contact Ralph Timber, OCFS Audit Liaison at (518) 473-0796 or via e-mail.

Sincerely,

James A. Conway
Director
Office of Audit and Quality Control



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